

Message Text

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PAGE 01 ADDIS 01792 150821Z

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SUBJ: MAJOR EXPORT PROJECTS PROGRAM -- ETHIOPIA: IBRD-
FINANCED FIFTH HIGHWAY PROGRAM

REF: ADDIS A-237, DEC 20, 1973

1. ON JAN 24 BIDS WERE OPENED FOR CONSTRUCTION OF SIX IBRD-FINANCED FEEDER ROADS (DESCRIBED REPAIR) UNDER IEG FIFTH HIGHWAY PROGRAM. CONSTRUCTION FIRMS SUBMITTING BIDS FOR ALL OR PART OF THE PROJECT WERE BERTA (ETHIOPIAN), ETBURG (UNKNOWN), JOINT VENTURE OF LAVOR-ESTORI AND ZORZI GIUSSEPPE (ETHIOPIAN-ITALIAN), NATIONAL ENGINEERING AND CONSTRUCTORS (ETHIOPIAN), IMPRESSA MAZZI (ITALIAN), IMPRESIT-RECCI (ETHIOPIAN), SKANSKA (ETHIOPIAN), NELLO L. TEER (US), AND DR. ING. TRAPP & CO. (GERMAN). ACCORDING TO IMPERIAL HIGHWAY AUTHORITY (IHA) BIDS MUST NOW BE COMPARED AND VERIFIED BY IHA AND IBRD OFFICIALS BEFORE HIGH AND LOW BIDDERS FOR EACH OR ALL PROJECTS DISCLOSED.

2. CONSTRUCTION WILL BEGIN IN MAR OR APR 1974 AND IS EXPECTED TO BE COMPLETED WITHIN THREE YEARS. IDA LOAN OF ABOUT US\$19 MILLION WILL FINANCE CONSTRUCTION OSRIIX ROADS.

3. COMMENT: WE UNDERSTNAD THAT NELLO L. TEER (US) SUBMITTED LOWEST BID FOR ENTIRE PROJECT. HOWEVER, IHA INTERESTED IN LOCAL CONSTRUCTION COMPANY PARTICIPATION INCLINED GIVE FOUR
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PAGE 02 ADDIS 01792 150821Z

OF ROAD PROJECTS TO LOCAL CONTRACTORS --- WHOSE BIDS WERE LOWER

THAN NELLO L. TEER BID ON THESE PROJECTS -- AND REMAINING TWO TO NELLO L. TEER. WE ALSO UNDERSTAND NELLO L. TEER QUALIFIED THEIR BID TO AN ALL OR NOTHING BASIS. IBRD HAS NOT YET TAKEN POSITION ON IHA PIECEMEAL APPROACH TO PROJECT. ACCORDING TO IBRD, IF LOCAL FIRMS AWARDED PROJECT, IDA FUNDS EXTENDED TO CONTRACTOR THROUGH IEG AGRICULTURAL AND INDUSTRIAL DEVELOPMENT BANK RELENDING WILG HAVE TO BE USED TO FINANCE PERFORMANCE BOND FROM COMMERCIAL BANK OF ETHIOPIA. THUS, LOCAL FIRMS WILL PROBABLY REQUIRE SUPPLIER CREDITS TO FINANCE EQUIPMENT PURCHASES. LOCAL REPS FOR US EQUIPMENT, HOWEVER, UNEASY ABOUT PROVIDING CREDIT DUE TO LACK OF EXTENSIVE ROAD CONSTRUCTION EXPERIENCE OF MOST LOCAL FIRMS.

4. IN EVENT LOCAL CONTRACTOR(S) WIN PART OF PROJECT, US FACES "RISK" DILEMMA. IT CLEAR THAT WHATEVER LOCAL CONTRACTOR SHOULD RENDER SATISFACTORY PERFORMANCE, HE WILL PROBABLY BE IN ROAD CONSTRUCTION BUSINESS IN ETHIOPIA FOR REST OF HIS WORKING LIFE. HIS EQUIPMENT SUPPLIER WOULD PRESUMABLY HAVE CREATED MAJOR LONG-TERM MARKET FOR HIS PRODUCTS. THUS, IF EMBASSY COULD PREDICT WITH CERTAINTY SUCCESSFUL LOCAL CONTRACTOR, WE WOULD UNRESERVEDLY SUPPORT EXIMBANK/FCIA RISK COVER FOR US SUPPLIERS. HOWEVER, CERTAIN PREDICTION OF SUCCESS IMPOSSIBLE IN VIEW LBYAL CONTRACTOR LACK OF EXPERIENCE. UNDER THESE CIRCUMSTANCES, EMBASSY WILL CONSULT CLOSELY WITH LOCAL REPS US EQUIPMENT SUPPLIERS AND OTHER TRADE SOURCES TO ASSESS "RISK." IF RISK SEEMS REASONABLE, WE WILL THEN URGE US HEADQUARTERS OF SUPPLIERS AND EXIMBANK TO CONSIDER RISK-SHARING ARRANGEMENT IN INTEREST PROTECTING US ROAD CONSTRUCTION EQUIPMENT MARKET IN ETHIOPIA. WYMAN

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